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S E C R E T SECTION 01 OF 03 PANAMA 000235

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E.O. 12958: DECL: 01/31/2015

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SUBJECT: PANAMA PRESIDENT TORRIJOS TOUTS POLITICAL VALUE OF  
FTA, EMPHASIZES PANAMA'S FRIENDSHIP WITH U.S.

REF: PANAMA 0089

Classified By: AMBASSADOR LINDA WATT FOR REASONS 1.4 (B) AND (D).

11. (U) This is an action message. See Embassy  
recommendations in paras 13 and 14 below.

Summary  
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12. (S) Citing internal political pressures and dwindling domestic room for maneuver, President Martin Torrijos on January 27 made a plea to the Ambassador for U.S. concessions in the final stage of the bilateral Free Trade Agreement (FTA) talks. (The eighth round, January 31-February 4, is underway in Washington.) Accompanied by most of his inner-circle "brain trust," Torrijos argued that U.S. FTA concessions, particularly on rice and sugar, would properly recognize Panama's special relationship with the United States; assign appropriate status to Panama's importance to U.S. regional security objectives (such as intelligence sharing, discussed in Panama with Secretary of Defense Rumsfeld on November 13), and would relieve the GOP from having to defend an agreement that its opponents claim contains more stringent conditions than CAFTA. More to the point, such concessions would permit the GOP to sell the FTA to domestic agricultural interests, who in conjunction with local business groups have inflamed public opinion against the GOP's recent proposals to significantly raise tax rates for rich Panamanians and businesses, which became law January 131. (See Reftel.)

13. (S) For her part the Ambassador laid down markers on U.S. commercial and geo-strategic interests in Panama's Canal expansion plans and on suspicions of Venezuelan meddling in Panamanian affairs. End Summary.

14. (S) At the invitation of President Torrijos, Ambassador attended a January 27 luncheon that included First Vice President/Foreign Minister Samuel Lewis, Trade Minister Andy Ferrer and Minister of the Presidency Ubaldo Real. The main Panamanian agenda item during the two-hour-plus meeting was the FTA. Torrijos explained that his administration's recently enacted tax reforms have exacted a significant political price. The National Assembly passed the bill on January 31; business groups who are expected to pay significantly higher taxes under the new law have fiercely resisted it.

15. (S) Some of the most strident voices on the tax issue represent farming sectors which also are those most likely to be negatively affected by FTA, Torrijos continued, such as rice and sugar (and pork, poultry, potatoes, onions, coffee, and oil, to lesser degrees). Torrijos made plain that he needs U.S. "flexibility" on rice and sugar at the FTA talks to allow him political space to maneuver. Although his administration is strongly pro-free trade, Torrijos said that the FTA has been a hard sell for certain formerly protected and politically influential farming sectors. Torrijos said that he needs a Free Trade Agreement that he can tout domestically as a political victory, that is, he needs U.S. concessions on rice and sugar in a package that cannot be construed as "worse" than CAFTA.

16. (C) (Note: The meeting took place on January 27, a day that featured two anti-government demonstrations, one led by former president Guillermo Endara, who opposes tax reforms and the FTA. Anti-government sentiment is running high among the Panamanian business elite, some of whom will have to pay taxes for the first time under the new law. Fierce negotiations were underway between the executive branch, business, and the National Assembly to find a workable solution. The tax reform bill passed the Assembly on January 131. End Note.)

17. (S) Torrijos underlined the all-but-perfect record of cooperation that his government has with USG law-enforcement and security priorities, including extraditions (to the point where Torrijos has reported receiving veiled threats from "Colombians") and on High-Value Canal Transits of nuclear-powered submarine (highly appreciated by US Navy and

SouthCom). He also reminded the Ambassador of his government's commitment to anti-corruption and democratic governance, both U.S. priorities for the Hemisphere. Torrijos claimed his government is "sending signals" to United States but that the United States has not reciprocated by sending him a message of political support. The best signal of U.S. political support, Torrijos believes, would be in the form of concrete concessions at the FTA negotiations.

18. (S) Ambassador Watt countered Torrijos's claims of the lack of U.S. political signals, noting the high-level visits to Panama by Secretary of State Colin Powell in September 2004 and by Secretary of Defense Donald Rumsfeld in November 2004, not to mention the multi-agency, multi-million-dollar annual U.S. assistance portfolio to Panama, and energetic Embassy outreach at all levels.

19. (S) The Ambassador then turned to U.S. concerns about Canal procurement, the negative perception that Panama's relations with Venezuelan President Hugo Chavez could engender, and a nagging disquiet in Washington about PRC intentions regarding the Canal. While noting that our bilateral relations were excellent and that we are impressed with the policies, high-level appointments, and political will of the President Torrijos's administration, she clearly told the group that perceptions are critical on these "hot-button" issues. Specifically, would U.S. business get a fair shot at some of the principal Canal expansion contracts? Is there an effort underway at the Canal to distance itself from the U.S. via its current and future procurements? Also, the Ambassador said, many in Washington are not sure what to make of Panama's recent talks with Venezuela about a pipeline project to send Venezuelan oil to Chinese customers, especially in light of rumors regarding Bolivarian Circles operating in Panama. (To be reported septel.) Finally, she cautioned the GOP about accepting offers of assistance for Canal modernization with political strings or baggage attached.

10. (S) The Panamanians were taken aback, hearing such perceptions so candidly expressed. "We are your friends!" Samuel Lewis exclaimed. On Canal procurement, Torrijos quickly discounted any suggestion of anti-American bias at the Canal and added that the Canal Authority (ACP) and he believe bidding processes to be transparent. He was quick to state that there is no political (i.e. from the Presidency) interference with Canal administration. On Venezuela, taking the Ambassador's point that Chavez has become increasingly anti-U.S. and radical, Torrijos claimed that the oil pipeline idea is purely commercial (from Panama's point of view), to take advantage of Panama's geographical location. He pointed out that other countries, including Colombia, have various commercial arrangements with Venezuela. Despite the scandals involving the Moscoso government with Taiwan money, he pointed out, his government has maintained a respectful relationship with Taiwan. VP/FM Lewis complained of a lack of response from Washington on Panama's intelligence sharing proposal made to Secretary Rumsfeld in November. (Note: Embassy is similarly disappointed at the lack of response to date. End Note.)

Comment  
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11. (S) The big picture: The Torrijos administration is trying to fight corruption, address poverty, make the government more efficient and responsive, be a close partner with the United States and cooperate closely with us on security, terrorism, and law enforcement, as well as free trade. Showing political courage, Torrijos has paid a political price for his principles, even within his own party, which he has stiffed on government jobs and payola. Though far from perfect, the Embassy believes that this is exactly the kind of progressive, trade and investment-friendly, socially conscious ally and friend that the U.S. is seeking in the region.

12. (S) At several points during the lunch, Torrijos and/or Lewis emphasized that President Torrijos, due to his political pedigree, is uniquely positioned as a channel or a bridge to Hemispheric political leaders. Much like DR President Leonel Fernandez, Torrijos wants to be viewed as a regional player whose excellent relationship with the U.S. and with the Latin American moderate left is an advantage to all. In Ecuador on January 26, at Colombian President Uribe's request, Torrijos reached former Spanish Prime Minister Felipe Gonzalez to seek his possible intervention with Chavez on the Granda case fallout. Torrijos told the Ambassador that this was but one example of his quiet diplomatic efforts which he is willing to use to our benefit.

Embassy Recommendations  
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13. (S) For USTR: Ambassador Watt's telcon with Regina Vargo on January 28 covered the FTA-related points. Again, rice

and sugar are the most sensitive sectors for which Panama is pursuing U.S. "flexibility." CAFTA equivalency is the minimum they say they can accept.

14. (S) Embassy strongly supports Washington efforts to schedule a Bush-Torrijos meeting, both to send a political signal of support for Torrijos's reforms and to offer both sides the opportunity at the highest levels, inter-alia, to share ideas for further cooperation, including the intelligence sharing proposal.

WATT